



# **MAMUSA LOCAL MUNICIPALITY**



## **CASH AND INVESTMENT POLICY**



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# INVESTMENT AND CASH MANAGEMENT POLICY

## 1. DEFINITIONS

In this policy, unless the context indicates otherwise-

**“Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

**“Council”** means the Council of Mamusa Local Municipality referred to in section 18 of the Municipal Structures Act No. 117 of 1998;

**“Chief financial officer”** means the staff member designated as such by the municipal manager in terms of section 80 (2) (a) of the Act and includes and other staff member acting in this capacity;

**“Investee”** means an institution with which an investment is placed, or its agent;

**“Investment”** means -

- a) the placing on deposit of funds with a financial institution: or
- b) the acquisition of monetary assets with funds not immediately required, with the primary aim of preserving those funds.

**“Investment manager”** means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989) and the Stock Exchanges Control Act, 1985 (Act No.1 of 1985) and who/which is contracted by the municipality or municipal entity to -

- (a) advise it on investments;
- (b) manage investments on its behalf; or
- (c) advise it on investments and manage investments on its behalf;

**“Municipality”** means the Mamusa Municipality;

**“municipal manager”** means the municipal manager of the municipality appointed by the Council in terms of section 82 of the Municipal Structures Act, 1998 and includes any other staff member acting in this position.

**“Regulations”** means the Municipal Investment Regulations contained in Government Notice R. 308 of 1 April 2005.

**“Trust money”** means money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Act.

## 2. INTRODUCTION

In terms of MFMA No. 56 of 2003 Section 13(1) and (2) of the Act requires a municipality to adopt an appropriate and effective cash management and investment policy within which the municipality must:

- (a) conduct its cash management and investments: and
- (b) invest money not immediately required in accordance with any framework which may be prescribed.

The Municipal Investment Regulations contains a framework within which all municipalities shall conduct their cash management and investments activities.

The purpose of this policy is to secure the sound and sustainable management of the municipality's surplus cash and investments.



As a trustee of public funds, council has an obligation to ensure that cash resources are managed as effectively as possible;

Council has the responsibility to invest public funds with great care and is accountable to the community in this regards;

The investment policy should be aimed at gaining the highest possible return without undue risk during the periods when surplus cash is not needed. In this regards, it is essential to have an effective cash management system;

**Purpose of the policy**

The purpose of this policy is to ensure that cash and investment of surplus funds are controlled and that prudent investment procedures are consistently applied.

### **3. SCOPE AND APPLICATION**

The policy governs the investment by the municipality of money not immediately required by it for the defrayment of expenditure.

The policy applies to all new and existing investments made by -

- (a) the municipality; and
- (b) all investment managers acting on behalf of the municipality in making or managing its investments.

The policy does not apply to trust monies administered by the municipality where the trust deed applicable to such monies prescribes how same is to be invested.

### **4. OBJECTIVES**

The objectives of this policy are to ensure -

- (a) compliance with legal and statutory requirements relating to cash management and investments;
- (b) the preservation and safety of the municipality's investments;
- (c) diversification of the municipality's investment portfolio across acceptable investees, permitted types of investments and investment maturities; and
- (d) timeous reporting of the investment portfolio as required by the Act in accordance with generally recognised accounting practice.
- (e) that the liquidity needs of the municipality are properly addressed.

### **5. STANDARDS OF ETHICS, JUDGMENT AND CARE**

- ✓ Investments made by or on behalf of the municipality must—
  - a) be made subject to the maintenance of a strict code of ethics and standards;
  - b) be made as a genuine investments and not for the purpose of speculation;
  - c) be made with primary regard to the security of the investment, secondly, with regard to the liquidity needs of the municipality, and lastly, with regard to the income or return from the investment;
  - d) be made without internal or external interference whether or not such interference emanates from individual officials, councillors, agents, investees or any other external body.



- ✓ No fee, commission or other reward may be paid to a councillor or official of the municipality or to a spouse or close family member of a councillor or official, in respect of any investment made by the municipality. This fact shall be confirmed annually by all investees to the Auditor-General.
- ✓ All investments made by or on behalf of the municipality must be made in the name of the municipality.
- ✓ The municipality shall take reasonable steps to diversify its investment portfolio across investees, types of investment and investment maturities.

## **6. CONFIDENTIALITY**

- a) Although alternative rates on offer need to be disclosed when negotiating a rate on an investment, the disclosure of a specific rate from a specific named investee to another investee shall be strictly prohibited.
- b) The municipality's current cash position and its projected future cash flows shall not be discussed with or disclosed to investees.

## **7. PERMITTED INVESTMENTS**

The municipality shall only invest in the following instruments or investments:

- a) securities issued by the national government;
- b) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- f) bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- g) guaranteed endowment policies with the intention of establishing a sinking fund;
- h) repurchase agreements with banks registered in terms of the Banks Act, 1990;
- i) municipal bonds issued by a municipality;
- j) any other investment type as the Minister of Finance may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

## **8. Prohibited investments**

- ✓ The municipality shall not be permitted to make the following investments:
  - a) investments in listed or unlisted shares or unit trusts;



- b) investments in stand-alone derivative instruments;
- c) investments denominated in, or linked to, foreign currencies;
- d) investments in market linked endowment policies.
- ✓ The municipality shall not borrow for the purpose of investing.
- ✓ Any investment in capital or money market instruments shall be held until maturity. The municipality shall not buy and sell these instruments in order to speculate with a view to making capital profits.

## **9. INVESTEE LIMITS**

### **Calculation of limits**

Maximum investment limits shall be set for each approved investee and these limits shall not be exceeded at the time of making the investment.

### **Deposit taking institutions**

The investment limit per deposit taking institution shall be calculated in the manner set out below, using balance sheet figures obtained from the individual investees' Reserve Bank DI900 return:

- a) 5% of total equity divided by total assets multiplied by total deposits;
- b) The ratio of the individual limits per investee, calculated above, as a percentage of the total limits, shall then be applied daily to the actual funds invested and available for investment. In this manner, a daily investment limit, as per the calculated ratio, shall be determined per investee for any given level of total actual investments.

Investee limits and ratios, based on the above formulae, shall be revised annually or as required upon the addition or deletion of an institution to or from the list of approved deposit taking investees.

### **Credit ratings**

The municipality shall invest only with investees having, as applicable, an investment grade rating of A.1- or better, short term, and A or better, long term, from a nationally or internationally recognized credit rating agency.

### **Credit worthiness**

The municipality must ensure that it places its investments only with credit-worthy investees. The credit worthiness of every investee shall be monitored throughout the year on an on-going basis. The municipality must liquidate an investment where the credit rating of an investee falls below the acceptable rate.

## **10. COMPETITIVE SELECTION PROCESS**

The selection of an investee for any investment shall be a competitive process. Where applicable, quotations shall be invited telephonically from at least three eligible investees for the term for which the investment is to be placed. In the event of one of the investees offering a more beneficial rate for an alternative term, the



other investees initially invited to quote should be approached for their rates on the alternative term.

Verbal quotations received shall be recorded in writing by the chief financial officer.

As a general rule but subject to paragraphs 5 (c) and 9 above, the best rate offered by an investee shall secure the investment.

Written confirmation of the terms of the investment shall be prepared and exchanged with the investee in all cases.

## **11.INTERNAL CONTROL OVER INVESTMENT FUNCTION**

### **Delegations**

In terms of section 59 of the Municipal Systems Act (No.32 of 2000), the council hereby delegates to the municipal manager the power, function and duty to make investments on behalf of the municipality subject to compliance with this policy.

The council also supports the sub-delegation of the aforesaid power by the municipal manager to the chief financial officer in terms of section 79 of the Act.

### **Obtaining quotations and concluding investments**

Written mandates, signed by the chief financial officer, shall be issued to all investees with whom the municipality invests funds. Such mandates shall contain the name and particulars of the chief financial officer who is authorized to transact investments telephonically with such investees and sign written confirmations or any other correspondence with regard to investments.

Where investees operate through dealers, a dealing sheet, signed by the authorised dealer, shall be prepared in all instances for each individual investment. Such dealing sheet shall detail the quotations received by the dealer concerned and the recommended investees.

The chief financial officer shall authorize each investment made by the municipality. An "Authorisation of Investments Made" form shall be prepared each day detailing the terms of each new investment made on that day. This form shall be signed by the chief financial officer.

### **Approved investees**

Any additions to or deletions from the list of approved investees, or any changes to the investment limits assigned to each investee, shall be approved jointly by the municipal manager and the chief financial officer.

### **Electronic Funds Transfer (EFT)**

Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of a payment file and the payment authorizer or releaser. Investment EFT payments shall be authorized or released only by the chief financial officer.



## **Control over Investment Portfolio**

A proper record shall be maintained of all investments made by the municipality. Such record shall indicate, at a minimum, the name of the investee, capital amount invested, interest rate and maturity date. Interest must be correctly calculated and receipted timeously together with any capital which matures.

Investment papers and certificates must be kept in a locked, fireproof safe. Investments must be recorded in the name of the municipality by the investee.

## **12. CASH MANAGEMENT**

### **Cash collections**

The municipality shall ensure that all cash received via cash offices is collected and banked as early as possible in a legally compliant, controlled and secure manner.

Adequate cash receipting points shall be made available to the public in all areas to facilitate prompt payment of accounts. Every effort shall be made to encourage consumers to pay directly, or via third party agents, into the municipality's bank account by electronic means.

### **Payments to suppliers**

Suppliers shall be paid in accordance with the payment clauses in the supply chain management policy of the municipality or, unless prescribed otherwise for certain categories of expenditure, within 30 days of the municipality receiving a supplier invoice.

### **Bank current account balance**

The balance on the municipality's current account shall be maintained at the minimum possible level taking into account daily cash requirements. Surplus cash shall be immediately invested in order to maximize interest earnings.

### **Cash forecasting**

Effective cash flow forecasting is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions. Forecasts of cash receipts and payments shall be prepared by the chief financial officer on a regular basis to facilitate investment decisions.

### **Cash flow reporting**

In order to ensure effective cash management for investment purposes, the following cash flow reports shall be prepared:

#### **a) Daily**

- ✓ A summary of the preceding day, and month to date, closing bank account and investment balances, cash receipts, payments and inter-bank transfers;
- ✓ A detailed schedule of investment capital and interest maturing on the current day;
- ✓ A summarised schedule of daily investment maturities for all existing investments;
- ✓ A summarized monthly projected cash flow over the next 12 months;





- ✓ A summary of daily cash receipts and payments, actual against forecast, for the month to date;
- ✓ A daily projection of cash receipts and payments through to the end of the current month.

**b) Monthly**

- ✓ A comparison of actual cash flow with forecast, current month and year to date
- ✓ An explanation of variances in the above;
- ✓ An analysis of actual year to date cash receipts and payments, and projected cash flows for the remaining months of the current financial year, to be submitted to National Treasury;
- ✓ The cash backing of statutory funds and reserves balances at month end.

**(c) Quarterly**

- ✓ A revised detailed cash flow projection for the next 12 months.

**(d) Annually**

- ✓ Preparation of the annual cash flow budget for the new financial year.

### **13. INVESTMENT REPORTING**

Regular reporting mechanisms shall be put in place in order to assess the performance of the investment portfolio and to ensure that the investments comply with policy objectives, guidelines, applicable laws and regulations.

The following reports shall be prepared:

a) for internal financial management:

- ✓ A daily summary of current investments by investee, actual against limits;
- ✓ A detailed schedule of investment capital and interest maturing on the current day;
- ✓ A daily summarised schedule of future maturities for all investments;
- ✓ A monthly reconciliation of all interest accrued with interest actually received;
- ✓ Each month, the weighted average actual return earned on investments for the month, and for the previous 3, 6, 9 and 12 months, shall be calculated on a nominal annual compounded monthly (nacm) basis and benchmarked against (a) the municipality's cash management scheme (CMS) rate, and (b) the Alexander Forbes composite short term fixed interest (STEFI) rate. The CMS rate is the guaranteed interest rate available on the municipality's current account bank balance throughout the year, whilst the STEFI rate reflects the actual performance of money market instruments in the market.

b) for the political leadership:

- ✓ A monthly report on the investment portfolio, to be submitted to the council via the Finance Portfolio Committee, within ten working days of each month, detailing:



- ✓ the market value of each investment as at the beginning of the reporting period;
- ✓ any changes in the investment portfolio during the reporting period;
- ✓ the market value of each investment at the end of the reporting period; and
- ✓ fully accrued interest and yield for the reporting period.
- ✓ A quarterly report to council, in accordance with section 11(4)(a) of the Act, within 30 days after the end of each quarter, on the quarter's cash withdrawals from the municipality's bank account for investment purposes.

**c) for external parties:**

- ✓ Notification to the Auditor-General, within 30 days after the end of the financial year, by all investees of any investment held by them for the municipality during that year.
- ✓ Notification to the Auditor-General and the Provincial Treasury, within 90 days, of the name, type and number of any new bank account opened by the municipality.

## **14. USE OF INVESTMENT MANAGERS**

The municipality shall be permitted to employ investment managers to:

- a) advise it on its investments; and/or
- b) manage specific investments on its behalf.

The appointment of an investment manager shall be made in accordance with the municipality's supply chain management policy.

All investments made by an investment manager on behalf of the municipality must be in accordance with this policy and the Regulations, with the exception of **paragraph 8** above which restriction shall not apply to investment managers.

If an investee pays any fee or commission to an investment manager in respect of the municipality's investments, both the investee and the investment manager must declare such payment to the council by way of a certificate disclosing full details of the payment.

Investment managers found guilty of non-compliance with this policy, as well as the Regulations, shall be held liable for any loss or penalty suffered by the municipality.

## **15. ACCOUNTING FOR INVESTMENTS**

The municipality's investments shall be accounted for as held to maturity (HTM) financial investments in accordance with the municipality's approved accounting policies. Initially recognized at cost, these investments shall be subsequently measured, at balance sheet date, at amortised cost, using the effective interest rate method, less any write down for impairment or un-collectability.



#### **16. ANNUAL REVIEW OF POLICY**

This policy will be reviewed by the council annually or earlier if so required by legislation. All amendments to this policy must be consistent with the Act and any regulations promulgated in terms thereof.

#### **17. INVESTMENT REGULATIONS**

The Investment Regulations appended as Annexure A shall form an integral part of this policy and in the event of a conflict between such regulations and this policy; the provisions of the Regulations shall apply.

#### **18.EFFECTIVE DATE**

The effective date of this policy or any amendments thereto, shall be the date of its adoption by Council.